

MB-04-207

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Cable...

A La Carte or Basic

An Advertiser Perspective

MEBIA.COM

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Federal Communications Commission
Office of the Secretary

AUG - 3 2004

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July 29, 2004

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**Advertisers and Advertising Agencies
have no DIRECT financial interest in FCC actions.**

However, as advertising is impacted by FCC actions advertisers must react to any changes, which can create market situations preempting FCC goals.

Further, increased costs to Advertisers are detrimental to the economy as a whole as advertising costs are absorbed in total prices that consumers pay for goods and services.

Individual consumers can be further harmed if FCC actions prevent the consumer from being knowledgeable about products in the marketplace.

Advertisers' interests are the same as the American viewers' and in line with the FCC's obligation to provide for a diversity of voices in the television and radio marketplace.

Advertisers' need for programs that appeal to diverse audiences is both broad and deep....

Parent Companies Advertising on Cable: 2,798

Individual Brands Advertised on Cable: 12,423

July 2003-June 2004

Source: Nielsen Media Research

As the Third Circuit said, FCC actions to deregulate and open markets have in fact closed them and severely limited the diversity of voices.

That is why advertisers are worried about the unintended consequences of any FCC action on “a la carte” cable which could further limit advertising avenues to reach our diverse population.

Simply put, previous governmental actions that have limited the diversity of voices have limited advertiser opportunities in the most effective and cost efficient medium to reach consumers.

It is therefore essential to advertisers that further FCC initiatives be closely examined for their potential unintended consequences.

That is why the “a la carte” cable issue which seems to be a simplistically soluble three way battle between the two rich MSO and cable network elephants and consumers is so complex and important an issue to the seemingly uninvolved advertising mice.

What is the problem?

That people “pay” for programming they don’t want/ watch...

Network	Penetration/ Cvg%	Avg Rtg	CVG Rtg	Network	Penetration/ Cvg%	Avg Rtg	CVG Rtg
(Total US HH)				(Total US HH)			
The Discovery Channel	82	0.5	0.6	MSNBC	75	0.2	0.3
ESPN	82	0.6	0.7	COURT	72	0.3	0.4
TNT	82	1.0	1.2	Black Entertainment TV	72	0.3	0.4
USA	82	0.8	1.0	BRVO	70	0.2	0.3
A & E Network	81	0.5	0.6	The Travel Channel	69	0.1	0.1
CNN	81	0.4	0.5	CMT	68	0.1	0.1
Lifetime TV	81	0.8	1.0	Speed Channel	56	0.1	0.2
NICK	81	1.4	1.7	TV Guide Channel	56	0.1	0.2
SPIKE TV	81	0.4	0.5	GOLF	55	0	0.0
TBS Network	81	0.8	1.0	Superstation WGN	55	0.2	0.4
The Weather Channel	81	0.2	0.2	Hallmark Channel	53	0.3	0.6
CNBC	80	0.1	0.1	Outdoor Life Network	53	0	0.0
ESPN2	80	0.2	0.3	GAME	50	0.1	0.2
ABC Family	80	0.4	0.5	WE: Women's Ent	50	0.1	0.2
The History Channel	80	0.5	0.6	ESPN Classic	49	0	0.0
Headline News	80	0.1	0.1	Discovery Health	48	0.1	0.2
MTV	80	0.5	0.6	OXYG	47	0.1	0.2
TLC	80	0.5	0.6	National Geographic C	44	0.1	0.2
VH1	80	0.2	0.3	Toon Disney	40	0.1	0.3
American Movie Classics	79	0.4	0.5	TECH TV	40	0.0	0.0
Comedy Central	79	0.4	0.5	Lifetime Movie Network	38	0.2	0.5
FOXNC	79	0.6	0.8	ESPNEWS	37	0	0.0
Home and Garden TV	79	0.4	0.5	BBC- America	35	0	0.0
TOON	79	0.8	1.0	NOGIN/The N	35	0.1	0.3
Animal Planet	78	0.3	0.4	FUSE	33	0	0.0
Entertainment TV	78	0.2	0.3	SOAPNET	33	0.1	0.3
Disney Channel	77	0.9	1.2	FITV	31	0	0.0
FOOD	77	0.3	0.4	Discovery Times Channel	30	0	0.0
FX	77	0.4	0.5	Great American Country	24	0	0.0
SCIFI	77	0.4	0.5	The Outdoor Channel	24	0.0	0.0
TV Land	76	0.4	0.5	Turner South	10	0.0	0.0

If viewers chose by network, they would not pay for what they didn't want.

But they would pay more for those networks they did want as the viewership is not inclusive across all networks.

Simple arithmetic shows that there are not enough people to carry the cost of any single network so program quality would not be the same.

Would people pay more for less?

So, many networks would go out of business.

But, some would say that then they should.

For advertisers this could be good as broadcast networks would deliver large audiences again.

But it would be bad because there are over 12,000 target audiences that advertisers tried to reach last year that would now be “massified” making advertising expenditures highly inefficient.

Currently, advertisers buy cable networks even though over 70% of cable PRIME time delivers less total viewers in mass than a spot on channel 11 in NY at 2 am because of the 12,000 targets.

Eventually, viewers would leave television as they sought out other media more tuned to their individual tastes.

Advertisers would then lose the most effective and efficient way to let Americans know about their products.

“But advertisers would pay more for the chosen networks making up for the lost subscription revenue because they know the viewer is more interested in the programming.”

Advertisers have experience in this area and know the argument for paying more for a “chosen” medium by payment is false....

RESEARCH FINDINGS FROM THE MAGAZINE READER EXPERIENCE STUDY

FOR CONSUMER MARKETING: EXPERIENCES DEEPEN TIES

Studying how consumers experience reading magazines revealed important truths about magazine connections that dispel several myths. Many of these myths are rooted in the transaction of consumer magazine buying. The Reader Experience Study shows that these transaction-based myths have little to do with the realities of consumers' experiences with magazines and have important implications. Key findings:

MYTH: Readers of magazines purchased at newsstand are "better" than subscribers.
FINDING: Across magazines, this is not the case. Reader Usage Measure (RUM) is the same whether the magazine is purchased by subscription or on the newsstand.

MYTH: Lower subscription price paid means the reader values magazines less.

FINDING: Across magazines, this is not true. RUM is unaffected by average net subscription price.

Analysis of Subscription Matching for Time, Inc. & Advance Publications

March 5, 2004

McFheters

Company

Consultants to the Media

Objective

- To determine whether or not price and source of subscription affects reader quality.

McPheters

Company

Consultants to the Media

Summary

- For these publications, neither price paid nor subscription source is a substantial determinant of subscriber quality.

“But cable operators are smart and wouldn’t sell individual networks, they would package them in tiers.”

On the surface, that sounds good for advertisers because it would make for cleaner/ clearer buys.

But viewers are already choosing those networks by watching them, and advertisers follow the viewing.

And everyone claims to watch “Masterpiece Theatre” and only a few own up to craving “The Bachelor”...

09/29/2003-07/25/2004

MTWTFSS 6:00 AM-6:00 AM *

NETWORKS	%A18+ COMP	%F18+ COMP	%M18+ COMP
WOMEN NETWORKS			
(LIF)			19%
(OXYG)			30%
(WE)			32%
(HGTV)			22%
(SOAP)			20%
(LMN)			22%
KIDS NETWORKS			
(TOON)	31%		
(TDSNY)	36%		
(NOGTV)	36%		
(NICK)	35%		
SPORT NETWORKS			
(ESPN)		22%	
(ESPN2)		25%	
(SC)		21%	
(OLN)		26%	

How would the networks make up for the lost audience and lost advertising revenue in addition to the lost subscription revenue?

And how would the advertiser find the audience which is not just age and sex but psychographic.

Will it even be in television?

And what about the creative? What changes would we need to make to fit the right commercial in whatever new environment that audience goes to?

The supermarket has food and other goods for the various diverse tastes of the community it serves.

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The Discovery Channel	82	0.5	29.6	MSNBC	75	0.2	15.2
ESPN	82	0.6	26.2	COURT	74	0.3	15.7
TNT	82	1.0	38.7	Black Entertainment TV	72	0.3	12.7
USA	82	0.8	37.3	BRVO	70	0.2	16.8
A & E Network	81	0.5	27.0	The Travel Channel	69	0.1	15.6
CNN	81	0.4	21.5	CMT	68	0.1	11.5
Lifetime TV	81	0.8	27.7	Speed Channel	56	0.1	6.0
NICK	81	1.4	32.9	TV Guide Channel	56	0.1	14.3
SPIKE TV	81	0.4	25.5	GOLF	55	0	2.8
TBS Network	81	0.8	39.1	Superstation WGN	55	0.2	16.0
The Weather Channel	81	0.2	22.7	Hallmark Channel	53	0.3	10.8
CNBC	80	0.1	8.7	Outdoor Life Network	53	0	5.4
ESPN2	80	0.2	20.6	GAME	50	0.1	6.5
ABC Family	80	0.4	23.9	WE: Women's Ent	50	0.1	7.5
The History Channel	80	0.5	24.5	ESPN Classic	49	0	4.0
Headline News	80	0.1	13.8	Discovery Health	48	0.1	6.4
MTV	80	0.5	26.6	OXYG	47	0.1	9.8
TLC	80	0.5	25.4	National Geographic C	44	0.1	6.2
VH1	80	0.2	24.4	Toon Disney	40	0.1	6.4
American Movie Classics	79	0.4	25.0	TECH TV	40	0.0	2.4
Comedy Central	79	0.4	24.0	Lifetime Movie Network	38	0.2	7.7
FOXNC	79	0.6	19.1	ESPNEWS	37	0	3.5
Home and Garden TV	79	0.4	19.1	BBC- America	35	0	2.4
TOON	79	0.8	23.7	NOGGIN/The N	35	0.1	3.8
Animal Planet	78	0.3	19.8	FUSE	33	0	1.9
Entertainment TV	78	0.2	25.6	SOAPNET	33	0.1	2.6
Disney Channel	77	0.9	26.4	FITTV	31	0	1.1
FOOD	77	0.3	17.8	Discovery Times Channel	30	0	2.0
FX	77	0.4	27.5	Great American Country	24	0	2.0
SCIFI	77	0.4	19.0	The Outdoor Channel	24	0.0	2.0
TV Land	76	0.4	18.4	Turner South	10	0.0	4.5

Source: Nielsen Television Activity Report, Quarter 1, 2004.

It is all about the guava paste...

The worst thing that happens to an advertiser is when the expected advertising is not delivered.

That is why we expect a minimum level of committed subscribers before we can buy a new network.

We know that the subscribers turn into viewers through trial.

As marketers, advertisers know that there is no purchase without trial and there is no trial without availability/shelf space first and then consumer knowledge of availability.

Thus, without the video supermarket that now exists, advertisers would not be able to support new networks.

**Cable Breakout Programs
Program Rtg. vs. Network Average
Season-To-Date**

PROGRAM NAME	NETWORK	DAY	START TIME	END TIME	P18-49			P25-54		
					PROG. RTG	NETWORK AVG. RTG	INDEX	PROG. RTG	NETWORK AVG. RTG	INDEX
Blow Out	Bravo	Tuesday	9P	10P	0.45	0.10	450	0.49	0.12	408
Celebrity Poker Show down	Bravo	Tuesday	9P	10P	0.54	0.10	540	0.60	0.12	500
Queer Eye for the Straight Guy	Bravo	Tuesday	10P	11P	0.77	0.10	770	0.87	0.12	725
Trading Spaces	TLC	Saturday	9P	10P	1.09	0.27	404	1.23	0.29	424
World Poker Tour	Travel Channel	Wednesday	9P	11P	0.34	0.06	567	0.41	0.07	586
Outback Jack	TBS Superstation	Tuesday	9P	10P	1.02	0.45	227	0.97	0.44	220
Joe Schmo (2)	Spike TV	Monday	11:05P	12A	0.54	0.22	245	0.44	0.22	200
The 4400	USA	Sunday	9P	11P	2.51	0.37	678	2.81	0.41	685
Dead Zone	USA	Sunday	10P	11P	1.21	0.37	327	1.41	0.41	344
Monk	USA	Friday	10P	11P	1.24	0.37	335	1.69	0.41	412
Nashville Star	CMT	Saturday	10P	11P	0.71	0.08	888	0.93	0.09	1033
1-800-Missing	Lifetime Network	Saturday	10P	11P	0.53	0.37	143	0.64	0.42	152
Strong Medicine	Lifetime Network	Sunday	10P	11P	0.64	0.37	173	0.73	0.42	174
The Division	Lifetime Network	Sunday	9P	10P	0.60	0.37	162	0.71	0.42	169
Wild Card	Lifetime Network	Saturday	9P	10P	0.56	0.37	151	0.66	0.42	157
Nip/Tuck	FX	Tuesday	10P	11P	1.71	0.26	658	1.75	0.26	673
Rescue Me	FX	Wednesday	10P	11P	1.95	0.26	750	2.07	0.26	796
The Shield	FX	Tuesday	10P	11P	1.33	0.26	512	1.30	0.26	500
Airline	A&E	Monday	10:30P	11P	0.23	0.17	135	0.28	0.22	127
Dr. 90210	E!	Monday	10:30P	11P	0.19	0.14	136	0.19	0.14	136
The Chappelle Show	Comedy Central	Tuesday	10P	10:30P	0.72	0.24	300	0.54	0.19	284
Crank Yankers	Comedy Central	Tuesday	10:30P	11P	0.40	0.24	167	0.27	0.19	142
The Daily Show	Comedy Central	M-F	11P	11:30P	0.50	0.24	208	0.42	0.19	221
South Park	Comedy Central	Wednesday	10P	10:30P	1.56	0.24	650	1.16	0.19	611
The Man Show	Comedy Central	Sunday	10P	10:30P	0.48	0.24	200	0.44	0.19	232
Fatherhood	Nick-at-Nite	Saturday	10P	10:30P	0.36	0.50	72	0.30	0.51	59
Tour de France	OLN	M-Su	9A	11:30A	0.13	0.02	650	0.15	0.03	500
Newlyweds	MTV	Wednesday	10P	10:30P	1.87	0.26	719	1.36	0.16	850
The Osbournes	MTV	Tuesday	10:30P	11P	1.56	0.26	600	1.12	0.16	700
Pimp My Ride	MTV	Sunday	9:30P	10P	1.15	0.26	442	0.72	0.16	450
Punk'd	MTV	Sunday	9P	9:30P	1.00	0.26	385	0.69	0.16	431
Real World	MTV	Tuesday	10P	10:30P	2.03	0.26	781	1.29	0.16	806
Rich Girls	MTV	Tuesday	10:30P	11P	0.96	0.26	369	0.60	0.16	375
The Ashlee Simpson Show	MTV	Wednesday	10:30P	11P	1.46	0.26	562	1.01	0.16	631

Source: Nielsen Media Research

“But the supermarket doesn’t make you buy the asparagus if you only want tomatoes and cucumbers.”

Ah, but you are still paying for the asparagus even if you don't get it.

After all, the vegan pays for the part of the cost of unsold and spoiled meat that must be discarded in the price of the bean curd.

And we all pay for the loss leader price of the fabric softener even if we don't do laundry in the cost of the eggs.

And the supermarket carries flashlights and other essentials you just might need and the cost of that inventory carriage is in your potato chips.

Weather Channel

Severe Weather Events					
Date	Type	HH (000)	5a-2a		A25-54
			A25-54 Rtg.	Index	
01/25/08	W	464	0.25	155	249
01/26/08	W	717	0.47	291	488
01/27/08	W	533	0.33	202	325
01/28/08	W	500	0.29	180	290
01/17/07	W	436	0.25	167	241
02/16/07	W	561	0.35	237	343
02/17/07	W	799	0.51	347	502
02/18/07	W	539	0.29	198	286
02/23/07	W	496	0.31	209	302
02/24/07	W	423	0.26	175	254
4/7/2007	O	367	0.21	151	205
05/05/07	O	406	0.25	182	248
05/06/07	O	402	0.21	150	204
05/07/07	O	354	0.21	149	202
05/08/07	O	357	0.19	138	188
05/09/07	O	365	0.22	155	211
05/10/07	O	327	0.18	131	179
05/11/07	O	487	0.26	189	257
05/12/07	O	423	0.22	160	218
09/14/07	T	425	0.28	174	269
09/15/07	T	499	0.28	174	269
09/16/07	T	497	0.30	191	295
09/17/07	T	544	0.31	194	301
09/18/07	T	749	0.43	272	421
09/19/07	T	1227	0.67	422	653
09/20/07	T	380	0.22	139	215
12/05/07	W	398	0.26	181	253
12/06/07	W	468	0.27	192	289
12/07/07	W	497	0.30	209	293
12/14/07	W	492	0.28	197	276
12/15/07	W	484	0.31	216	301
Quarterly Averages					
1Q03		275	0.15		145
2Q03		251	0.14		136
3Q03		279	0.16		155
4Q03		246	0.14		140
1Q04		283	0.16		161

w=winter/o=other/t=tropical

Source: Nielsen via MultiTrak, 1/1/03-1/31/04

Of course, you could go to the green grocer, the bakery, and the local butcher.

It will cost you more.

And if you want a crown roast of lamb, the Islip Meat Market will sell it to you if you order it in advance.

“But in Canada, a la carte works.”

Let's ignore the numbers that say otherwise.

But what doesn't work for advertisers or viewers is there is no diversity requirement in Canada. In fact, the government grants monopolies by program type.

Americans crave diversity of voices.

That is why when more channels are added, more channels are watched as they are discovered and sampled...like the guava paste.

That is like having only one juice, say grapefruit, in one size at the grocery store.

Well on school days, I have to pack my daughter's lunch and what if I can't get a juice pack size?

And what if she sometimes wants grape juice?

Advertisers are no different than my daughter.

It is probable that American viewers are no different either.

The viewer wants a market that serves his/her television needs.

But as a diverse population, that market needs to be a supermarket.

And the advertiser needs to sell to people that like tomatoes and hate Brussel sprouts or only eat hot dogs.

In both cases, the supermarket where the totality of the goods and the associated costs are carried across that diverse selection and amortized over all of the customers is the most efficient for feeding the community.

And, concurrently, the most efficient for those that want to feed the community.